

Message Text

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21

ACTION EB-07

INFO OCT-01 EA-09 IO-13 ISO-00 FEA-01 AGR-10 CEA-01

CIAE-00 COME-00 DODE-00 FRB-01 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-02 AID-05 CIEP-02 SS-15

STR-04 ITC-01 TRSE-00 PRS-01 SP-02 OMB-01 XMB-04

NSCE-00 SSO-00 USIE-00 INRE-00 OES-06 /112 W

----- 059528

O R 180334Z MAY 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC IMMEDIATE 7175

INFO USDEL MTN GENEVA

US MISSION GENEVA 357

AMCONSUL HONG KONG

AMEMBASSY TOKYO

UNCLAS SEOUL 3671

DEPARTMENT PASS COMMERCE OIM/BIC/SCHNEIDER

HONG KONG FOR REGFINATT

E.O. 11652: N/A

TAGS: ETRD, EIND, GATT, MTN, OVIP (ELLIOT RICHARDSON), KS, US

SUBJ: ROKG EASES IMPORT DEPOSIT REQUIREMENTS SLIGHTLY FOR
MAJOR RAW MATERIALS

REF: (A) 75 SEOUL A-45, (B) 75 SEOUL 2755, (C) 75 SEOUL 4977

(D) SEOUL 3171, (E) SEOUL 3349

SUMMARY: IN A MODEST STEP TO EASE IMPORT RESTRAINTS IN
RESPONSE TO THE IMPROVED TRADE PICTURE, THE ROKG HAS
ANNOUNCED THE ELIMINATION OF THE AUTOMATIC RETENTION PERIOD
ON IMPORT DEPOSITS FOR SIGHT L/C IMPORTS OF 12 MAJOR RAW
MATERIALS. THE AFFECTED COMMODITIES OF U.S. INTEREST INCLUDE
WHEAT, OTHER GRAINS, RAW COTTON, IRON AND STEEL SCRAP,
AND RAW MATERIALS, FOR FERTILIZERS AND PESTICIDES. THE
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IMPACT OF THIS CHANGE IS LIKELY TO BE QUITE SMALL SINCE

ALL AFFECTED IMPORTS ENJOY SIGNIFICANTLY LOWER DEPOSIT RATES WHEN IMPORTED ON USANCE OR DOCUMENTS AGAINST ACCEPTANCE (D/A) TERMS OF OVER 90 DAYS. THIS CHANGE MAY ENCOURAGE SOME IMPORTERS TO SWITCH BACK TO IMPORTING ON A SIGHT L/C BASIS.
END SUMMARY.

1. RESPONDING TO THE GREATLY IMPROVED FOREIGN TRADE PERFORMANCE OF RECENT MONTHS (SEE REFS D AND E), THE ROKG MINISTRY OF FINANCE (MOF) HAS ANNOUNCED A MODERATE EASING OF IMPORT DEPOSIT REQUIREMENTS FOR 12 MAJOR RAW MATERIAL IMPORTS. THE PRINCIPAL CHANGE IS TO ELIMINATE THE AUTOMATIC RETENTION PERIOD FOR IMPORTS DEPOSITS WHEN THESE COMMODITIES ARE IMPORTED ON A SIGHT L/C BASIS. THE COMMODITIES INVOLVED ARE CRUDE OIL, WHEAT, OTHER GRAINS, IRON ORE, RAW COTTON, COPPER ORE, PHOSPHATE ORE, IRON AND STEEL SCRAP, HOT COILS, LAUAN LOGS, AND RAW MATERIALS FOR FERTILIZERS AND PESTICIDES. OF THESE COMMODITIES, WHEAT, OTHER GRAINS, RAW COTTON, IRON AND STEEL SCRAP, AND RAW MATERIALS FOR FERTILIZERS AND PESTICIDES ARE OF IMPORTANT U.S. INTEREST.

2. THE IMPORT DEPOSIT REQUIREMENT FOR ALL THE ABOVE COMMODITIES ON A SIGHT L/C BASIS REMAINS AT 110 PERCENT, EXCEPT WHEN IMPORTED AS RAW MATERIAL FOR EXPORTS FOR WHICH THE SIGHT L/C RATE IS 10 PERCENT. THE AUTOMATIC RETENTION PERIOD FOR SUCH DEPOSITS, FIRST INTRODUCED IN EARLY 1975 (SEE REF A), WAS 90 DAYS EXCEPT FOR IRON ORE, RAW COTTON, COPPER ORE, IRON AND STEEL SCRAP, AND HOTE COILS FOR WHICH THE AUTOMATIC RETENTION PERIOD WAS REDUCED FROM 90 TO 60 DAYS LAST JULY (SEE REF C). WITH THIS LATEST CHANGE, IMPORT DEPOSITS FOR THESE COMMODITIES WILL AGAIN BE RETURNED AT THE TIME OF SETTLEMENT, WHICH VARIES ACCORDING TO THE IMPORT BUT IS NORMALLY LESS THAN 90 DAYS.

3. ALL THE ABOVE COMMODITIES ENJOY SIGNIFICANTLY LOWER DEPOSIT RATES WHEN IMPORTED ON USANCE OR DOCUMENTS AGAINST ACCEPTANCE (D/A) TERMS OF OVER 90 DAYS. THESE RANGE FROM ZERO PERCENT FOR CRUDE OIL, FIVE PERCENT FOR WHEAT AND 10 PERCENT FOR OTHER GRAINS, UP TO 35 PERCENT FOR LAUAN LOGS AND RAW MATERIALS FOR FERTILIZERS AND PESTICIDES. THE LATTER RATE WAS LOWERED FROM 40 PERCENT IN THESE LATEST CHANGES. THE UNCLASSIFIED

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REMAINING COMMODITIES CARRY A 20 PERCENT RATE. WITH THE SINGLE EXCEPTION MENTIONED ABOVE, THE USANCE AND D/A RATES WERE NOT CHANGED IN THIS LATEST MODIFICATION, AND THE SIGHT L/C DEPOSIT RATE OF 110 PERCENT CONTINUES TO APPLY FOR USANCE OR D/A IMPORTS ON TERMS OF 90 DAYS OR LESS.

4. COMMENT: THE IMPACT OF THESE CHANGES IS EXPECTED TO BE VERY MODEST, BUT THEY REPRESENT AT LEAST A TENTATIVE STEP

IN THE DIRECTION OF EASING IMPORT RESTRAINTS IN RESPONSE TO THE IMPROVED TRADE PICTURE. THE PREVIOUS AUTOMATIC RETENTION REQUIREMENT VIRTUALLY FORCED IMPORTERS TO SEEK USANCE OR D/A CREDITS OF OVER 90 DAYS FOR THESE MAJOR IMPORTS TO AVOID THE HIGH SIGHT L/C DEPOSIT REQUIREMENT. WITH THE REMOVAL OF THE AUTOMATIC RETENTION PERIOD, SOME IMPORTERS MAY AGAIN OPT FOR IMPORTING ON A SIGHT L/C BASIS. MOF SOURCES INDICATE THAT THE INTENT OF THIS CHANGE IS TO MARGINALLY REDUCE RELIANCE ON SHORT TERM TRADE CREDITS AND SLIGHTLY LOWER FINANCING COSTS FOR IMPORTING THESE RAW MATERIALS.

5. MAJOR FOREIGN OIL COMPANIES HAVE EXPRESSED CONCERN IN THE PAST THAT THE STRUCTURE OF THE IMPORT DEPOSIT SYSTEM, AS AMENDED IN EARLY 1975, IN FORECING THEM TO RESORT TO USANCE OR D/A TERMS RESULTED IN THE BUILDUP OF EXCESSIVE WON HOLDINGS FOR WHICH THEY HAD NO EXCHANGE RATE COVER. FIRMS CONTACTED WERE UNABLE AS YET TO COMMENT AS TO THE EXTENT THESE LATEST CHANGES MIGHT RESOLVE THIS PROBLEM. THE EXCHANGE RATE RISK IN THE IMMEDIATE CIRCUMSTANCES IS MINIMAL IN ANY EVENT.

6. WHILE THE EMBASSY IS PLEASE TO SEE THIS MOVE TOWARDS EASING IMPORT RESTRAINTS, THE ELIMINATION OF THE AUTOMATIC RETENTION PERIOD TENDS TO OPERATE TO THE DIS-ADVANTAGE OF MORE DISTANT SUPPLIERS, E.G. THE U.S. AS OPPOSED TO JAPAN, SINCE THE PERIOD BETWEEN POSTING OF DEPOSIT AND SETTLEMENT IS NORMALLY LONGER WHEN THE COMMODITY IS IMPORTED FROM A MORE DISTANT SOURCE.
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